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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam (Biweekly)

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

The Economic Situation in South Vietnam

Summary

Orders for imports reached a new high in 1969 and were at near record levels during November and December despite the increase in import taxes levied in October.

The joint US/Vietnamese loan fund established to aid commercial and industrial firms damaged or destroyed during the 1968 enemy offensives has been almost fully committed, but apparently was able to meet no more than half of the demand for reconstruction loans.

Data on retail prices in Saigon are not yet available for February. Black market currency and gold prices rose again during the first half of the month as rumors of devaluation persisted.

ANNEXES: South Vietnam Economic Indicators (charts)
Currency and gold prices (graph)

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Demand for Imports

1. During 1969 orders for imports reached a new high of \$737 million, or 18 percent above the level of 1968. Moreover, the large increase in austerity taxes on most imports in late October did not reduce demand--the value of commercial import licenses issued during November and December for imports financed both by the Vietnamese government and by USAID's Commercial Import Program (CIP) was higher than for any two-month period since mid-1966 when the piaster was devalued. Preliminary data for January 1970 indicate that orders continued at a high level. The persistent rumors of another devaluation probably have contributed to the recent high demand for imported goods.

2. South Vietnam has financed more than half of total orders for imports during the last three years from its own holdings of foreign exchange (see tabulation), but the US still directly or indirectly finances most of the country's imports. During each of the last four years, US Government purchases of piasters for use in Vietnam have provided most of South Vietnam's earnings of foreign exchange.

Import Licensing (US\$ millions)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
US Financed				
C.I.P.	321	80	139	199
Food for Peace (PL-480)	93	160	106	116
GVN Financed	246	292	380	422
TOTAL	<u>660</u>	<u>532</u>	<u>625</u>	<u>737</u>

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War Reconstruction Loan

3. The reconstruction loan fund established by the Vietnamese and US governments in mid-1968 following the enemy offensives has been almost fully subscribed. The fund consists of a one billion piaster (\$8.5 million) grant from the Vietnamese government for repairs and replacement of both plant and equipment and a \$10-million grant from AID limited to the purchase of replacement equipment and spare parts of US origin. During the 1968 Tet and May-June offensives more than 100 commercial and industrial firms were damaged or destroyed and the cost of repair, reconstruction, and equipment replacement was estimated at about \$50 million.

4. Of the \$8.5 million Vietnamese portion of the fund, \$8.1 million had been committed by the end of January 1970. Because only half of the US grant had been used as of August 1969, Vietnamese and US officials decided that the remaining \$5 million in US funds would be made available for the expansion as well as reconstruction of plants damaged during the offensives. As a result of this change, seven loans were approved in January 1970 for the purchase of about \$5 million worth of US machinery for expanding the capacity of Vietnam's textile industry. All US funds, therefore, have now been committed. Although the total value of reconstruction loan applications is not known, at least \$30 million had been applied for by the end of 1968. Thus, it would appear that the reconstruction loan fund satisfied no more than half of the demand for funds. Available information does not indicate whether businessmen who were turned down by the government were able to get funds from private sources, continued to operate at reduced capacity, or closed up shop.

Currency Black Market

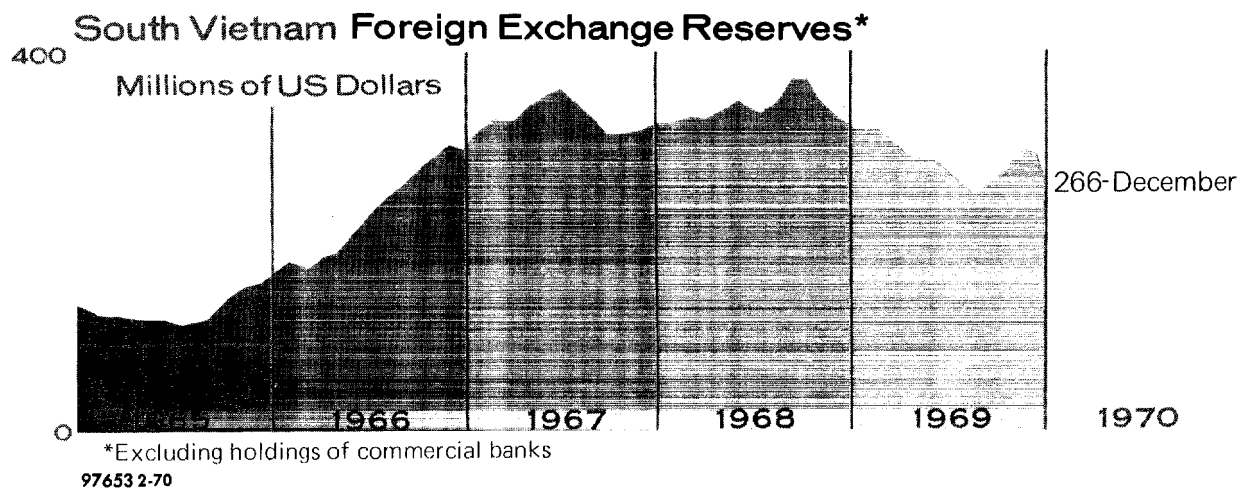
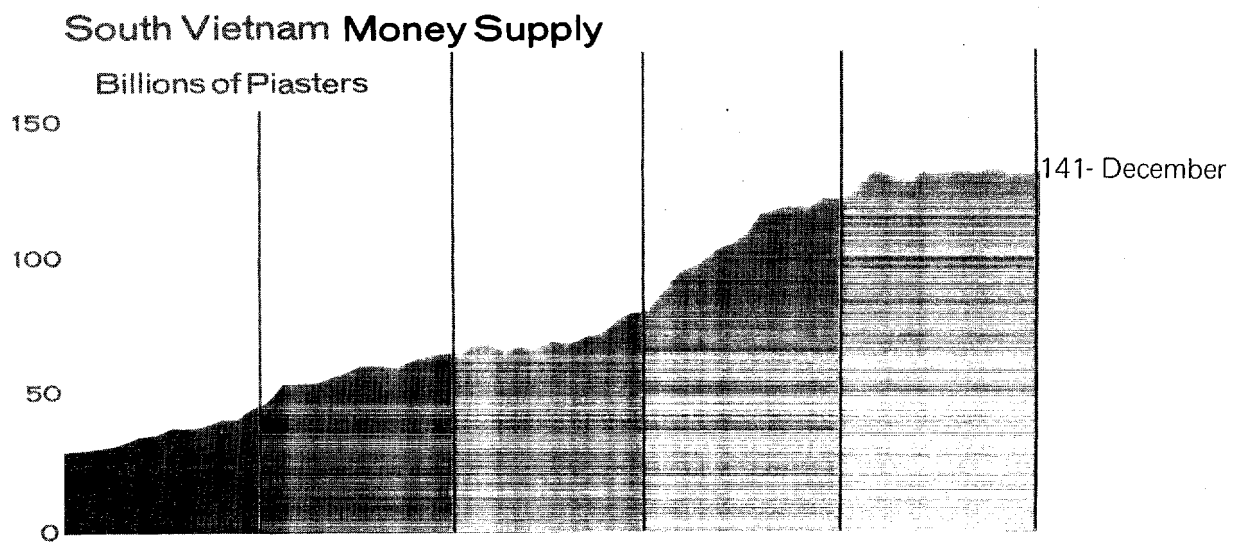
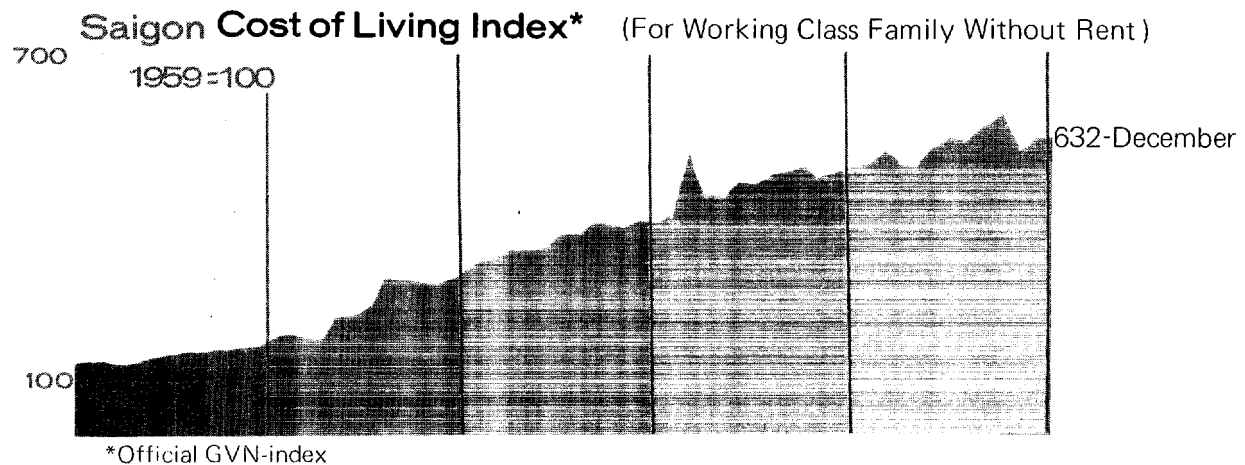
5. Saigon black market currency and gold rates rose again during the first half of February in response to rumors of devaluation. Issuance of new

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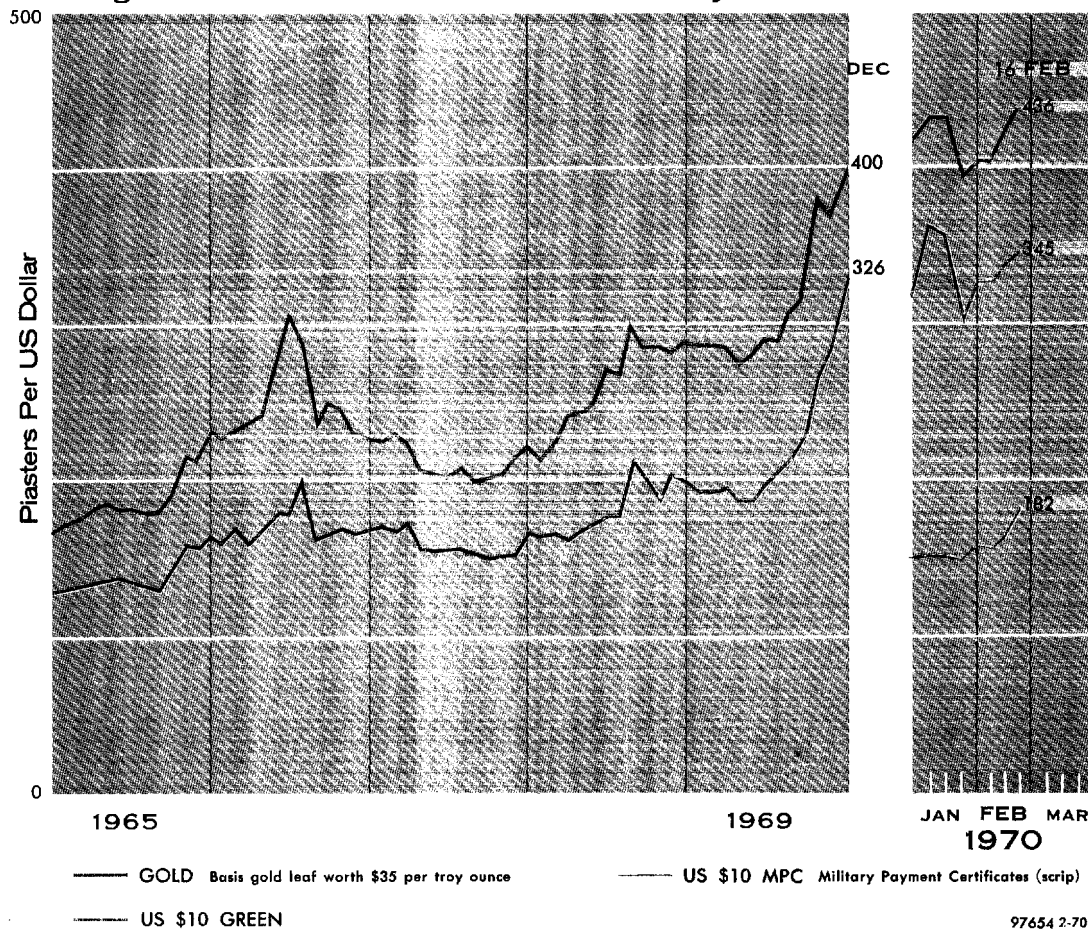
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piaster notes in 100, 200, and 500 denominations added strength to the rumors despite official statements that the new banknotes were to replace worn ones and have nothing to do with devaluation. The price of dollars increased from 328 piasters per dollar on 27 January to 345 piasters on 16 February. The price of a dollar's worth of gold leaf rose from 403 piasters to 436 piasters during the same period. The rate for MPC (scrip) jumped to an all-time high of 182 piasters per dollar compared with the official rate of 118 piasters per dollar. According to embassy officials, the sharp increase in this rate probably was due to new rumors that the official MPC exchange rate is to be changed to 180 piasters. (A graph on monthly and weekly currency and gold prices as well as charts on the cost of living, money supply, and foreign exchange reserves are included in the Annex.)

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Saigon Free Market Gold and Currency Prices



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